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September 18, 2000

RECEIVED IN  
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OFFICE OF THE  
EXECUTIVE SECRETARY

Mr. H. Lynn Greer, Jr., Director  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243

Dear Director Greer:

Re: Ben Lomand Communications, Inc.  
TRA Docket No. 00-00680  
Petition of Ben Lomand Communication, Inc.  
Requesting Authority to Issue and Sell Additional  
Common Stock

At the hearing on August 15, 2000, in connection with the subject application to issue and sell stock by Ben Lomand Communications, Inc., you asked a number of questions to which this office responded. Then you read a list of questions which was followed up with a letter from the Executive Secretary, Mr. David Waddell, and these questions were answered by this office and filed with the Commission on August 29. In addition, you had requested that I prepare a form of notice which I would recommend to the board of directors of Ben Lomand Communications, Inc. to be sent to the members of Ben Lomand Rural Telephone Cooperative, Inc., whose directors had authorized the purchase of \$500,000 in stock from Ben Lomand Communications, Inc. subject to the approval of the Tennessee Regulatory Authority. At the conference on August 15, 2000, you had informed me that you wanted to see the notice.

I have prepared a draft of a notice that I propose to submit to the board of directors of Ben Lomand Communications, Inc. at their next regular meeting which will be held on the 21st of October, 2000.

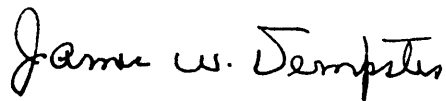
We have also prepared an estimate of the costs involved in printing and mailing notices, which will be in excess of \$26,000, which will have to be paid by Ben Lomand Communications, Inc. In addition, we anticipate that this notice will generate several inquiries in spite of the fact that the proposed notice tries to explain diplomatically the reason why the notice is being sent. If the Ben Lomand Communications, Inc.'s board approves the expenditure of the direct cost of \$26,000 for printing and mailing and notices are mailed, we anticipate an estimated additional \$10,000 for the cost of incidental expenses and responding to inquiries of Ben Lomand Rural Telephone Cooperative, Inc. members.

POSTED  
9-30-00

Mr. H. Lynn Greer, Jr., Director  
Page 2  
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I would appreciate your checking this at your earliest convenience and advising me if such a notice would be satisfactory to you. If there is anything further that you desire for me to furnish in regard to the request of Ben Lomand Communications, Inc. to issue and sell stock as per application of Docket No. 00-00680, please give me a call or have a member of your staff contact me.

Respectfully yours,

A handwritten signature in cursive script that reads "James W. Dempster".

James W. Dempster

JWD:bw

Enclosure

c: Sarah Kyle, Chairman  
Melvin Malone, Director ✓

NOTICE TO MEMBERS  
OF  
BEN LOMAND RURAL TELEPHONE COOPERATIVE, INC.

At the March 18, 2000, Annual Meeting, the manager's report, which was given to each person attending the Annual Meeting of the Membership, informed you of how the Cooperative's margins for 1999 had been used, including but not limited to plant additions to expand our subsidiary investments and for strengthening our equity ratio . . .

The membership was informed as follows: "Both subsidiaries also broadened their horizons with their expansion effort. Ben Lomand Communications (BLC) continues to provide the long distance needs of more than 23,000 customers in Middle Tennessee . . . . BLC also completed the Tennessee Regulatory Authority requirements to become a competitive local exchange carrier. The regulatory hurdle is now complete, and with construction nearing 50% completion, it will allow BLC to become a local telephone company in areas the Cooperative cannot enter." . . . .

The written manager's report for the Annual Meeting of March 20, 1999, contained, among other things, the activities of your subsidiary, Ben Lomand Communications, Inc., which contains the following language:

As we enter the new millenium, we must stretch our traditional boundaries to be able to serve the changing needs of our members. Stretching traditional boundaries could mean adding new innovations to our existing corporate structure, forming new entities to handle your changing demands or forming alliances with other telecommunications carriers in order to broaden our menu of products and services. Examples of stretching traditional boundaries already exist by the formation of our subsidiaries. Ben Lomand Communications has grown from only a vision of providing our members a high quality, reasonably priced long distance service to presently providing the long distance needs to over 21,000 users. We were the first local exchange carrier in Tennessee to provide this service, and last year our members benefitted with BLC earnings exceeding \$221,000. BLC continues to expand by recently applying to the Tennessee Regulatory Authority to become a competitive local exchange carrier. This will allow the offering of local service in areas the co-op cannot enter or compete.

The board of directors of Ben Lomand Communications, Inc. at their regular meeting held July 13, 2000, adopted a resolution to sell 10,000 additional shares of common stock for the aggregate sum of \$1,000,000, subject to the approval of the Tennessee Regulatory Authority.

The board of directors of Ben Lomand Rural Telephone Cooperative, Inc. authorized the purchase of up to 5,000 additional shares of Ben Lomand Communications, Inc. common stock for a consideration of \$100 per share, subject, however, to Ben Lomand Communications, Inc. obtaining the approval of the Tennessee Regulatory Authority to sell stock.

As required by Tennessee law, Ben Lomand Communications, Inc. applied to the Tennessee Regulatory Authority for permission to sell 10,000 shares of additional capital stock at \$100 per share. The directors of the Tennessee Regulatory Authority have directed Ben Lomand Communications, Inc., over which it has jurisdiction, to notify the members of Ben Lomand Rural Telephone Cooperative, Inc., over which it does not have jurisdiction in this particular matter, of the proposed sale of up to 10,000 shares of BLC stock and the proposed purchase by BLRTC of 5,000 shares of BLC stock at \$100 per share.

The reason for the difference in shares authorized to be sold and shares being purchased is that if, at a future date, the directors of BLC find it advisable to sell additional shares of stock to increase the equity of BLC for borrowing purposes, that it can do so without additional costs of going through the Tennessee Regulatory Authority for additional approval. The Ben Lomand Rural Telephone Cooperative, Inc. board of directors would have to approve the purchase of more than 5,000 additional shares of stock by adopting a resolution.

If you have any questions, please contact the office of James W. Dempster, Attorney, 118 E. Main Street, P.O. Box 332, McMinnville, TN 37111, Phone No. (931) 473-4934, or the office of Ben Lomand Communications, Inc., Judy Kelsey, Operating Manager, 1111 New Smithville Hwy., McMinnville, TN 37110, Phone No. (931) 668-1010.

## **Manager's Message**

**As we enter the new millennium, technology continues to play a significant part of our everyday lives. Only five short years ago, the worldwide web was only a vague concept that few understood and electronic commerce was non-existent. Today, much of our daily activities revolve around the use of e-commerce, e-mail, and even high school students have their own web sites. The use of the internet has exploded with the number of users nationwide doubling every 90-180 days. High speed internet connections have become a common communication tool. This fundamental need to communicate is helping to drive your Cooperative's growth and to change the way we expand our network for the future.**

**The widespread use of the internet is causing record calling volumes, putting a strain on the current nationwide network. Demands for increasing amounts of data to be sent at increasingly faster speeds, are also causing network congestion. To meet these challenges, your Cooperative is beginning to shift to a broadband network. We started this process by installing a new ATM Switch designed to handle the increased data traffic. We have also upgraded our fiber rings, and added several remote units, putting our members closer to fiber connections, allowing higher speeds to be provided. Our total plant upgrades amounted to \$7,872,000 during 1999, helping to provide our members current and future telecommunication needs.**

**As we cross the threshold into the next millennium, we are seeing many changes in our industry. Your Cooperative has broadened its borders and expanded its reach with new services not traditionally associated with a local exchange carrier, while at the same time returning a reasonable return on our members' investment. Total corporate earnings for 1999 resulted in a net margin of \$ 5,844,926. These earnings were used for plant additions, to expand our subsidiary investments and for strengthening our equity ratio which exceeded 71% by year-end. Our strong growth rate continued which resulted in an increase of 1,743 access lines for the year, breaking the 35,000 access line barrier. We also realized a 50% increase in our internet users with over 7,200 total customers by year-end.**

Both subsidiaries also broadened their horizons with their expansion efforts. Ben Lomand Communications (BLC) continues to provide the long distance needs to more than 23,000 customers in middle Tennessee. BLC completed another successful year by adding nearly 2,000 customers and \$271,000 of net income to our members' equity. BLC also completed the Tennessee Regulatory Authority requirements to become a competitive local exchange carrier. The regulatory hurdle is now complete and with construction nearing 50% complete, it will allow BLC to become a local telephone company in areas the Co-op can not enter. Our first market selected is McMinnville and the second will be Sparta. I feel this will allow for more revenue diversification and new growth that would not otherwise be possible.

Our second subsidiary Ben Lomand Wireless was designed to bring wireless service to the middle Tennessee area. After a few setbacks, this entity has been restructured and is now called Volunteer Wireless. Plans are being made to offer commercial wireless service to parts of our service area during 2000. Even though this project has been reorganized and scaled back from previous reports, we will soon be equipped to handle at least a portion of our members' wireless telecommunications needs.

We are also partnering with ten other telephone companies in Tennessee in order to become a carrier's carrier. This will allow the connection of our fiber network with other companies in Tennessee in order to transport voice and data traffic between all of the major cities within the state further diversifying our revenue base.

I am proud of the accomplishments of the past year. But we have to continually look to the future. As we enter the new millennium, Ben Lomand Telephone Cooperative stands firm by its commitment to promote the welfare of our members and provide you with the opportunity to obtain the best telecommunications services that we can possibly offer. With the continued loyalty of our members, our progressive Board of Directors and our dedicated workforce, I feel we will continue to supply your telecommunications needs well into the 21<sup>st</sup> century.

## **Manager's Message**

I would also like to welcome you to your Co-op's 1999 Annual Membership Meeting. It's great to see this good turnout today and for the next few minutes, I would like to offer you a glimpse of our 1998 activities and discuss our future plans as we enter the new millennium.

Let us begin by first reviewing the financial statements that were given to you as you came in today. Please turn to page 2, which reflects our consolidated financial information for both the Co-op and subsidiaries. As of December 31, Total Current Assets were \$16,334,617, Non-Current Assets were \$2,194,688 and Total Plant, Property and Equipment equaled \$90,549,685. After deducting \$40,207,000 of accumulated depreciation we ended the year with Total Assets of \$68,871,990. This represents an increase of over 8% in total assets since last year and for the first time, total property, plant, and equipment exceeds \$90 million. We also invested over \$7.7 million in new infrastructure during 1998 in order to maintain a modern network for our members. In the Liabilities section, Total Current Liabilities were \$6,369,811, Long-Term Debt \$15,309,893 and Total Liabilities of \$21,684,474. I would like to point out that even though we added \$7.7 million in new plant and equipment, we did not borrow any money from outside sources last year. In fact, our debt is at the lowest point it has been in over 21 years. In 1977, long-term debt was \$15,954,000, but at that time Total Assets were only \$19,090,000. Debt represented 84% of the total in 1977. Today, our total debt is \$15,309,000, but Total Assets are \$68,871,990. Today debt only represents 22% of the total. In addition, we are reducing long-term debt by almost \$1 million per year.

Under the Equity section, membership certificates were \$292,290 and Net Retained Earnings were \$46,895,226 for Total Equity of \$47,187,516. This represents a total equity ratio of over 69%. The Co-op's assets and equity are the largest they have ever been in our 45-year history.

Page 3 reflects our consolidated income statements, which again includes the co-op and subsidiaries income and expense. Our 1998 Operating Revenue equaled \$24,022,777, Non-Operating Revenue was \$466,596, for Total Revenue to be \$24,489,373. This represents gross revenue of over \$2 million per month. Even though local rates have stayed the same for the past 17 years, we have actually doubled our gross revenue during the past 10 years. Under the Expense section, Total Operating Expenses were \$17,443,453, Interest Expense was \$739,219, Taxes on non-related business income was \$129,211, leaving Net Margin for 1998 of \$6,177,490. As President Jones reported, this was the largest net margin your Co-op has every experienced.

He also pointed out that our Internet service continues to explode. We only started offering Internet service in 1996 and ended 1997 with 1,400 users. Last year this number doubled to 3,000 and today we have between 5,200-5,400 users. This will continue to have a significant impact on the Co-op, including our redesigning the network to accommodate the increase in data traffic. We have recently installed a new ATM switch just to handle this Internet volume. According to recent projections, 39% of rural customers could be on-line by the end of next year. If this is true, our penetration level could double again within the next year. Since only last year, our customer base has increased over 67%. The method by which we all



do business is changing, and the Co-op must also change. I recently read that 59% of adults who use Internet say they are more likely to send E-mail rather than make a long distance call. We are continuing to expand our Internet investment and currently testing voice over the Internet or voice over IP in order to migrate to the next phase of use. The Co-op has also recently ordered facilities that will significantly improve your ability to connect and increase your transmit speed.

During 1998, we also completed our new bill format. This was done in an attempt to make our monthly statements more user-friendlier, and we have had many good comments on our new look. This change was complete after the upgrade of our computer system, which was required for the so-called dreaded Y2K date or January 1, 2000. I want to assure you that your Co-op is reviewing all our computer systems and making the appropriate upgrades necessary in order to be Y2K compliant as quickly as possible. As I mentioned, we changed out our computer hardware last summer, and will soon be upgrading our billing software. We have made upgrades to our switching and transmission systems and are continuing to review other automated systems. We have an internal Y2K committee assigned the task of ensuring that proper upgrades are being done in a timely fashion. We anticipate that all Y2K upgrades will be complete by September 1, 1999. There should be no interruptions of telephone service, but there could be a few minor problems, such as fax machines displaying the incorrect dates and things of this nature.

Also at the end of 1998, we experienced one of the worst ice storms in our history. Even though several hundred subscribers realized a short break in telephone

service, our recovery was fast and efficient. Our employees did a great job and I to would like to echo President Jones remarks in that I'm proud to be associated with such a fine group of people. Many gave up their Christmas holiday with their families in order to restore telephone service.

Last year and so far this year have also been a regulatory rollercoaster ride. The Telecommunications Act of 1996 was passed to spur competition within the industry, but the FCC has turned it into a regulatory nightmare. The Commission is charged with the task of developing a new proxy model to settle on access fees. As you can see in our report today, over 66% of our revenue is derived from access charges. A small shift in settlements could have a significant impact on our revenue base and our ability to provide new services to our members. I feel the FCC should develop a comprehensive plan and address access fees, universal service and rate of return issues together. The regulators must understand that rural is different and that even though independent telephone companies serve only 6% of the customers nationwide but we cover over 40% of the geographic landmass. Your Co-op is assisting our trade associates to push the FCC to deal fairly with the smaller companies, and recognize that new regulations could disproportionately affect us. The state legislative front has also been equally challenging. We are being hit with legislation from many sides including one that would require reductions in state access fees. A special committee has also been assigned to study telecommunications issues, and the TDOT is attempting to formulate rules that would give exclusive use of the interstate highways right of way to a single carrier in exchange for part of their fiber network. We are in an industry that even an efficient business can be

forced out of business by over regulation or misguided regulation. But I can assure you that everything possible is being done both on the federal and state level to protect your interest.

Many feel that the Telecommunications Act of 1996 means that you must prepare for competition and your Co-op is preparing for the new environment. Through Ben Lomand Communications, we have faced the competitive forces for the past five years and as the president reported to you earlier today has been very successful. BLC is beginning the next phase of competition by obtaining a certificate of convenience and necessity to operate as a competitive local exchange carrier or CLEC. There two types of CLEC's, either to be a pure reseller or to be a facilities based carrier. A reseller merely resells the service of the incumbent provider and brands it as their own. If the incumbent carrier has poor service, then the reseller ends up reselling poor service. A facilities based carrier actually builds plant from the ground up. They own their own network or a least a part of it. This allows the CLEC to control their own destiny and not be totally dependent upon every whim of the incumbent. BLC has elected to become a facilities based carrier and compete head to head with Citizens Telecom in both Sparta and McMinnville. Even though the risks are greater and costs are more, BLC feels this is the only way to have some level of control over our future, and feel that we can offer a good quality service. This will allow BLC to greatly expand its revenue base and become a more permanent part of our corporate landscape.

Even though President Jones has thoroughly explained our efforts to offer wireless service to you through Ben Lomand Wireless, I would like to add my

enthusiasm to his comments. In order to truly diversify in this industry, I am convinced that a telecommunications provider has to offer some sort of wireless product. With the declining wireless rates, expanding calling areas and improvements in technology, wireless service could be a threat to a wireline telephone company or a windfall if you do have a wireless product. Its projected that 60% of all US households will have some sort of wireless service by 2005. With this level of use, it's a necessity that Ben Lomand Telephone be a wireless player. At the same time, we realize that we cannot be an island to ourselves but must be a part of a national network. When our members travel, you want continued ubiquitous service. By teaming up with other telephone companies will allow BLW to obtain a larger footprint, and with the Sprint PCS affiliation, we get immediate name recognition along with the advantage of national and regional advertising that we could never otherwise afford or justify. We have experienced delays during the past year but hope things are almost ready to begin. Financing is the only major obstacle remaining. Phase I still includes parts of I-40, Cookeville, and the northern portions of White County. Construction will then proceed southwardly including parts of I-24 and I-65. Since BLW is a partner in TriStar Wireless, that entity will be responsible for its buildout and maintenance. TriStar Wireless has employed a general manager, David Fig who is here today. David comes to us with a good background in wireless technology. If you have questions about the technology or the buildout, he will try to answer them after the meeting. Our business office will be soon opening in Cookeville. Very shortly, we hope to have a news release announcing our plans.

As a further means of diversification, we are also researching ways to market our fiber network. Ben Lomand has a state of the art network which has excess capacity. We are currently working with a group of eleven independent telephone companies to form a statewide alliance to connect each of our networks together and co-market the combined larger network to major interexchange carriers and large network users. We hope to complete the research on this project shortly and begin connecting remaining points in order to terminate facilities between Knoxville, Nashville, Huntsville, Chattanooga, and possibly even Memphis.

In closing, 1998 has been a great year for our Cooperative. Even though we face obstacles on several fronts, I feel your Co-op is positioned to flourish and withstand these turbulent times. Our earnings are strong, equity is high, and our diversification efforts are working. One thing for certain, technology will continue to change and there will always be challenges. But one thing that cannot change and that is our commitment to our members. As long as we have your support anything is possible.

Thank you for allowing me to serve as your General Manager for the past ten years. With your help we hope to serve you many more.

Thank you for allowing me this time today.

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